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‘Do – Nothing’ Plans Won’t Change 401(k) Needs

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More companies are offering automatic enrollment in 401(k) plans

Fall enrollment in company retirement plans is beginning, and increasingly employees are being offered a new strategy that’s easy to grasp – do absolutely nothing.

More and more companies are letting their employees put their 401(k) retirement plans on autopilot, according to a Wells Fargo survey released this week.

Backed with guidance from the Pension Protection Act of 2006, companies are increasingly setting up retirement plans that don’t require employees to do a thing.

The Wells Fargo survey shows that employers now offer:

Automatic enrollment. Half of employers with 401(k) plan require employees to take steps if they want to opt out of the program. This is a 70 percent increase over the companies surveyed the year before.

Automatic increases. One in 5 plans has automatic annual increases in employee contributions.

More investment choices. Plans with conservative default funds fell from 61 percent to 39 percent and were replaced with target-date or taget-risk funds.

‘High levels of satisfaction’

Such tactics appear to be working.

Employee participation in 401(k) plans is near 80 percent, said David Wray, president of the Profit Sharing/ 401(k) Council of America, a national nonprofit association. Despite such enticements as dollar–for–dollar matches at most employers, participation had declined earlier this decade.

“Employers are obtaining high levels of satisfaction from employees over this automation,” Wray said. “Some employees are saying, ‘I wish you had done this before.’”

Most workers tend to think that they can't commit to a retirement plan. But without those contributions, workers will end up at retirement without sufficient savings, said Katherine Tange-duPre, spokeswoman for Wells Fargo.

"A lot of young people think they will work forever, then by the time they're older obstacles like mortgages and paying for college get in the way of saving. Suddenly a worker wakes up at age 66 and realizes they don't have a dime saved," she said. "This is one way for employers to make sure employees are taking a stand."

Increasing contributions

While the automated programs are a good way to start a 401(k) program, they shouldn't be managed that way, Wray said.

"It's a great place to start, but we don't want automatic enrollment to be our standard of excellence," he said. "Employees should pay attention to the investment educational materials provided by the companies."

Local financial planners encourage workers to be more actively involed with their retirement plans as well.

"For the most part, the automation is good," said Burk Rosenthal, a certified financial planner and president of Rosenthal Retirement Planning, LP in Fort Worth. But even with the more aggressive investing and annual increases in contributions, most company plans don't go far enough, he said.

Many plans will start out with employee contributions of just 3 percent of salary, and annual increases in the low single digits.

"Don't get complacent with these percentages," he said. "Always work towards a 10 percent of salary or greater contribution."

At the very least, contribute the full amount that your company will match, Rosenthal said, "otherwise you're leaving money on the table."

In addition, be aware that when you change jobs, you may automatically be starting at the lowest contribution rate offered by your new company, said Steve Blankenship, a certified financial planner with Heritage Financial Planning in Grapevine.

"You could be automatically starting from scratch every time you change jobs," he said. "This is a problem especially for Generation X and Generation Y, who will change jobs frequently in their career."

Diversify your plan

Asset allocation is also an important consideration. Younger workers should focus primarily on growth funds, for example, Rosenthal said. If a couple are both working and have separate plans, they should make sure they're coordinated in asset allocation, Wray said.

The move toward automatic enrollment in target-date or target-risk investments is better than conservative fixed-rate investments, but still “not as golden as some would hope,” said Bryan Clintsman, a certified financial planner with Clintsman Financial Planning in Southlake.

This type of investment is commonly misused as one asset among a portfolio, which defeats the purpose, Clintsman said. These funds can also be too conservative as the participant approaches retirement age, he added.

While it’s important to be involed in your plan, don’t get too involved, Rosenthal warned.

“I have seen young investors get in their 401(k)s and make rapid changes,” he said. “They’ll have a bad quarter and either give up or move everything to a better return.”

Rosenthal advises investors to ignore short-term ups and downs in the market, and not to chase performance.

Teresa McUsic’s column appears Fridays.

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so investments that do poorly may be balanced by others that do relatively better.
Neither diversification nor asset allocation can ensure a profit nor protect against a loss.